Manitoba moves forward

Manitoba's five-year economic plan

Province of Manitoba

Mid-Year Report

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INTRODUCTION

Economic growth in Manitoba is stable and progressing near the historical average annual rate. In 2010, the economy expanded by 2.2% following no growth during the global recession in 2009. Manitoba's relative economic performance in 2009 was the third best among provinces and substantially better than the national GDP decline of 2.8%.

Over the past five years, Manitoba's economic growth has averaged 2.4% growth per year, the highest growth among provinces and above the national average increase of 1.2%.

Since Budget 2011, Manitoba's medium term economic outlook has moderated, reflecting spring flooding in the province and a markedly slower expectation for Canadian and global growth. Real GDP growth in Manitoba, however, is expected to slightly improve in the next two years with a forecast of 2.2% growth in 2011 and a further 2.4% growth in 2012.

The provincial economy is highly diversified with a relatively large service sector and a diversified export base. These and other factors have made Manitoba the most stable provincial economy over the past decade.

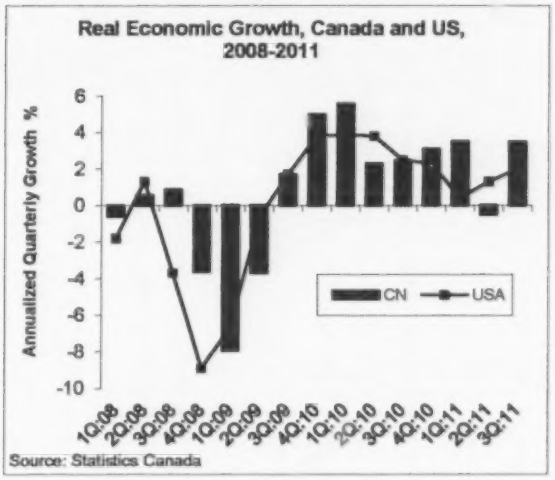
INTERNATIONAL AND CANADIAN ECONOMIC DEVELOPMENTS

After a sharp rebound in 2010, global economic growth has slowed considerably in the first half of 2011. Financial market volatility and the fiscal situation in Europe and in the U.S. are weighing down on overall business and consumer confidence.

In Europe, access to credit has been tightening while in the U.S., households and governments continue to repair their balance sheets following the sub-prime mortgage related financial crisis. This deleveraging process is currently curbing global demand for goods and services. As a result, the International Monetary Fund (IMF) projects advanced economies to grow by 1.6% this year and by 1.9% in 2012, following 3.1% growth in 2010. The U.S. growth rate is expected to fall sharply from 3.0% in 2010 to 1.5% in 2011.

With slower export demand from advanced economies coupled with recent monetary tightening in China, growth in Asia has notably slowed. The IMF projects 2011 GDP growth of 8.2% for developing Asia following an estimated 9.5% gain in 2010. Growth in China is expected to moderate from 10.3% in 2010 to 9.5% in 2011.

The Canadian economy has also weakened in 2011 due to slower export sales. In the second quarter of this year, real GDP contracted by 0.5% with exports declining by 6.4%. The contraction reflected both a general weakening of global demand as well as the supply chain disruptions generated from the massive tsunami in Japan earlier this year. Exports rebounded in the third quarter. However, on an average annual basis Canadian exports are up 4.5% in 2011 compared to 6.4% in 2010.



Canadian domestic demand, although growing slower in 2011, continues to support the economy, especially with business investment in machinery and equipment rebounding past the pre-recession record. Consumer and government spending continues to contribute to overall growth.

The concerns about a potential default on sovereign debt in a number of European Economic Community member countries has elevated the risks for a financial market meltdown in Europe and its repercussions on world markets. The impasse on a budget resolution in the U.S. has also added uncertainty about the near term economic outlook. Global equity and commodity markets have reacted with heightened volatility.

Given the circumstances, the Canadian economic forecast for this year and next has been downgraded by the Bank of Canada. The Bank expects 2.1% growth in 2011, down from 2.8% growth anticipated earlier this year. For 2012, growth was revised down from 2.6% to 1.9%.

Consumer spending, especially on housing, is expected to moderate as incomes and confidence is curbed by the financial market volatility. Capital investment is expected to remain firm as businesses acquire cost saving technology to enhance competitiveness. Export growth is expected to remain soft with modest growth in foreign demand.

Despite the downgrade in the economic outlook, Canada's unemployment rate is expected to improve over the next two years. On average, forecasters project the national unemployment rate will decline to 7.2% in 2012 from 8.0% in 2010.

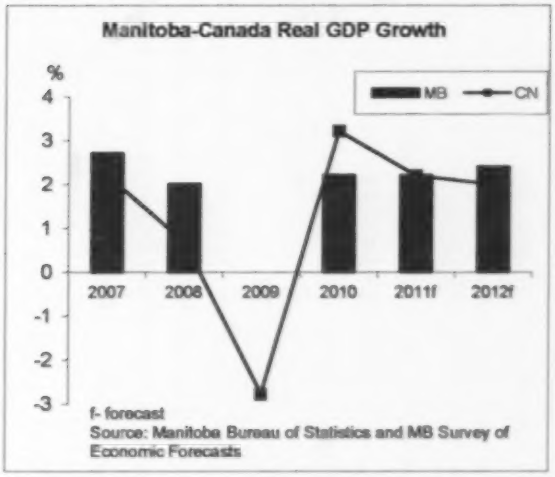
Due to temporary factors, consumer price inflation jumped to a 2.9% forecast rate in 2011 and is expected to increase by 1.9% in 2012. The expectations are in line with the inflation target established by the Bank of Canada.

MANITOBA'S ECONOMIC PERFORMANCE

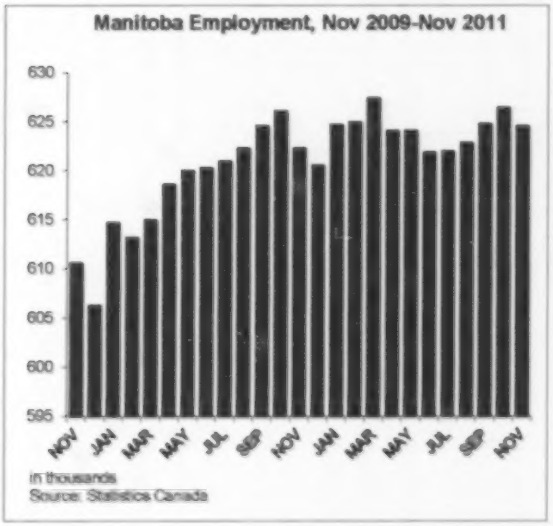
Reflecting Manitoba's stable economic and demographic fundamentals, growth is expected to slightly increase over the next two years while Canada's growth is expected to slow.

Based on Manitoba Finance's survey of independent economic forecasters, Manitoba's real GDP growth is projected to increase from 2.2% in 2011 to 2.4% in 2012. Real GDP growth was estimated at 2.2% in 2010 by the Manitoba Bureau of Statistics.

After increasing by 4.7% in 2010, Manitoba's nominal GDP is forecast to grow by 5.5% in 2011 and by 4.3% in 2012, above Canada's projected increase of 5.4% and 4.2% in 2011 and 2012, respectively.



Manitoba labour market performance has been among the strongest in Canada over the past two years. Manitoba outpaced the national employment growth in both 2009 and 2010. In 2011, Manitoba's employment has continued to increase, however the rate of growth has slowed to 0.7% through the first eleven months relative to the same period in 2010. Full-time employment has increased by 0.9% while part-time employment has decreased by 0.2%.



Manitoba maintains the second highest labour force participation rate in Canada at 69.2% compared to the national average of 66.8%. The high participation rate and strong population growth have buoyed the province's labour supply. In 2010, labour force expanded by 2.0%, the best growth in eight years and the strongest among provinces. This year, the labour force has further expanded by 0.7%, matching employment growth.

This balance between labour supply and labour demand has helped the province maintain a relatively stable unemployment rate. So far in 2011, the unemployment rate has averaged 5.4%, matching the average rate in 2010 and remaining the second lowest among provinces for the third consecutive year.

After outpacing Canada's average annual growth in labour income in three of the last four years and progressively increasing growth in the last three years, Manitoba's labour income growth equals the national increase in 2011. Labour income in the first three quarters of the year increased by 4.9%. In 2011, Manitoba's labour income growth is relatively broad based among the diversified industrial sectors with mining and construction sectors leading the increases.

Manitoba's retail sales growth has matched or been above the national average in all but one of the last ten years. Reflecting employment growth and low interest rates, retail sales in Manitoba sharply rebounded in 2010 by 5.6% following a 0.4% decline in 2009. In 2011, Manitoba consumers continue to boost retail sales by 4.2% compared to a national average of 3.5%.

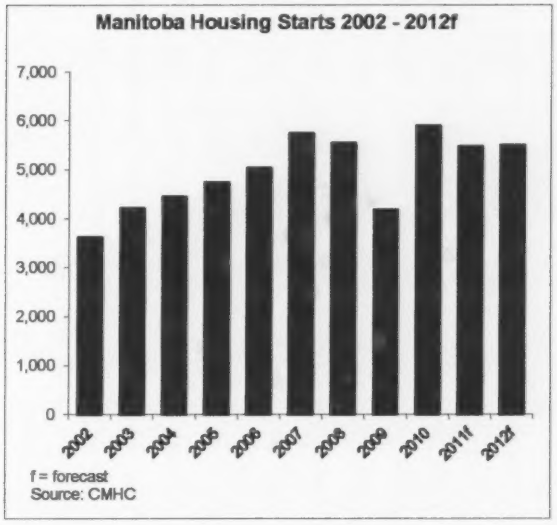
Manitoba's households continue to enjoy relatively healthy personal balance sheets. Manitobans have the second lowest personal debt per capita in Canada. Likewise, Manitoba's mortgage arrears rate (the percentage of mortgages in arrears for 90 days or more) in the first eight months of 2011 was 0.28%, the lowest among provinces and below the national rate of 0.42%.

Consumer and business bankruptcies in Manitoba have declined in 2011.Consumer bankruptcies are down by 23.5% so far in 2011, the second largest reduction among provinces. Business bankruptcies are down by 39.5%, the third largest reduction and

compared to a national average reduction of 12.5%.

New home construction activity in Manitoba has largely followed the national pattern over the last five years, contracting in 2008 and 2009, sharply rebounding in 2010 and correcting in 2011. In the first nine months of 2011, province-wide housing starts declined 5.1%, weaker than the 0.8% national decline. Single unit starts were down 9.2% while multiple unit starts were up 3.9%.

Canada Mortgage and Housing Corporation (CMHC) projects that total Manitoba housing starts will reach 5,475 units this year, above the five year average of 5,273 units. For 2012, CMHC forecasts housing starts will increase by 0.5% compared to a 2.2% decrease forecast for Canada overall.



With robust population growth, relatively strong personal income gains and low interest rates, growth in Manitoba's average residential property values has exceeded the national average annual growth in each of the last eight years. Manitoba home prices are expected to remain firm. CMHC forecasts Manitoba's average residential resale price will moderate 4.4% in 2011 to $232,000 and a further 2.2% in 2012 to $237,000.

A rebound in commercial capital investment activity has increased the value of total building permits issued in Manitoba through the first ten months of 2011 to 4.0%. The value of commercial building permits is up 13.1%, boosting non-residential permits by 5.7%. The value of total residential permits issued is up 3.2% after a 23.7% increase in 2010.

Manufacturing is the province's largest industrial sector, accounting for about 10.4% of GDP and 10.2% of employment. Manufacturing sales from Manitoba producers has outperformed national sales in nine of the last ten years.

In the first nine months of 2011, the value of manufacturing sales increased by 7.2%. The principal increases are a 33.8% increase in chemicals products, a 20.8% increase in machinery equipment, a 13.3% increase in primary metals and a 8.3% increase in transportation equipment. Decreases were in electrical appliances, down 14.2%, printing materials down 9.7% and wood products down 9.5%.

Manitoba's agriculture producers are facing a number of pressures. These include commodity price volatility, fluctuating currency, and trade barriers, namely the Country of Origin Labelling ("COOL"). The U.S. law requires labels for fresh beef, pork and lamb, sold in the U.S. to show the country of origin of the product. In addition, over the last two years, many agricultural producers were impacted by adverse weather related conditions including heavy rainfall and flooding.

The weather conditions significantly reduced Manitoba's crop production in 2011. Statistics Canada estimates that the volume of Manitoba wheat and canola production declined 29.9% and 23.2%, respectively, relative to 2010, while barley is estimated to have declined 46.4%. Among other major crops, oats and soybean production are estimated to have decreased 34.1% and 18.7%, respectively.

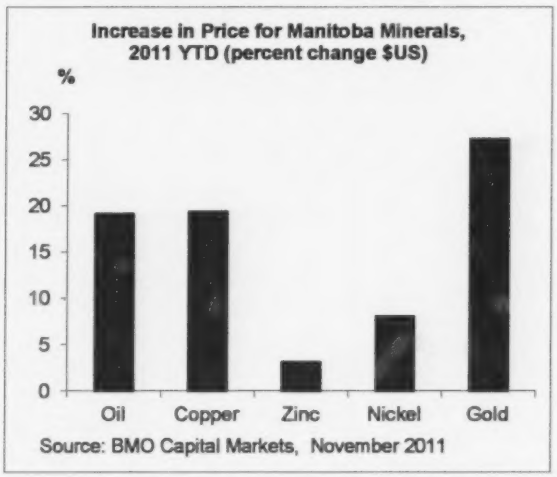
Following the implementation of U.S. COOL regulations, Manitoba hog and cattle exports sharply declined and these trends have continued. In the first year of COOL implementation, exports of slaughter hogs declined 64% from the same period in the previous year. Correspondingly, exports of slaughter cattle from Manitoba were down 60% in the first year of COOL.

To mitigate the sharp decrease in exports sales, Manitoba livestock producers have increased domestic slaughter capacity. Hog slaughter volumes are up over 35% from 2007 levels. The announced $85 million expansion of Maple Leaf Foods Winnipeg processing plant will further add value to manufacturing capacity in the province.

In the first three quarters of 2011, total cash receipts to Manitoba producers have increased 1.3%, compared to an overall national increase of 10.9%. Manitoba crop receipts declined 6.0% while livestock receipts increased 4.3%. In 2010, farm cash receipts rose 0.1% following a 0.4% gain in 2009.

The rapid expansion of petroleum production in the province has led to increased diversity in Manitoba's mining sector. Since 2004, the contribution of oil production has more than doubled from 20% of real mining GDP to the current 46%. During the same period, the contribution of metal ore production had declined from 67% to 54% of total mining output. Given the redistribution, mining's contribution to total output in Manitoba has remained relatively stable.

The mining sector has also been affected by significant price movements for a number of years. Commodity prices for many Manitoba minerals fell sharply during the onset of the global recession and continue to rebound through 2011. On a year-to-date basis, prices for most Manitoba-produced major minerals have increased with gold, copper and oil showing double digit percentage gains from 2010 levels.



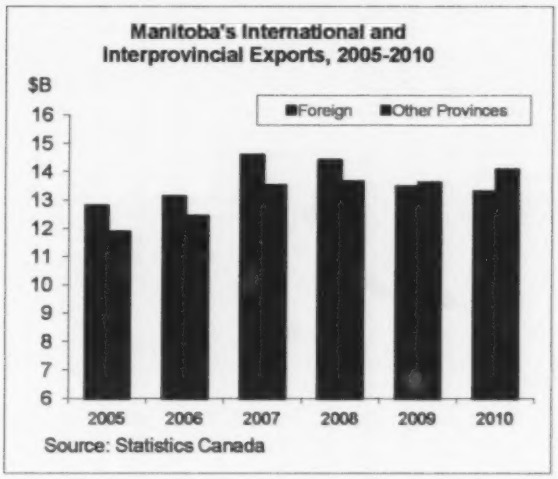
A number of major developments will affect the outlook for the mining industry in Manitoba over the next few years. The Bucko Lake nickel mine of CaNickel Mining Ltd. (formerly "Crowflight Mineral Inc.") reached commercial production in April 2010 and released positive drill results in 2011 for increased production. Alexis Minerals Corporation has announced that it anticipates reopening the New Britannia gold mine at Snow Lake, estimated by the company to produce 423,000 ounces of gold per year over six years.

HudBay Minerals Inc. announced that ongoing development at Flin Flon will extend base metal operations until 2020. HudBay Minerals Inc. closed its Flin Flon copper smelter in June 2010 and anticipates the closure of its Trout Lake and Chisel North zinc mines in 2012.

HudBay Minerals Inc. has also announced that it expects to commence production at its Lalor Lake copper, zinc and gold mine in 2012, reaching full production by 2018. In addition, HudBay Minerals Inc. announced plans to build a new concentrator at its Lalor mine for an additional $144 million. This will increase employment both during construction and after completion compared to previous plans to refurbish an older concentrator.

A tepid economic recovery in the U.S. and softening growth in Asia has lowered Manitoba's foreign exports sales in the past three years. Statistics Canada notes that real exports from Manitoba to other countries fell by

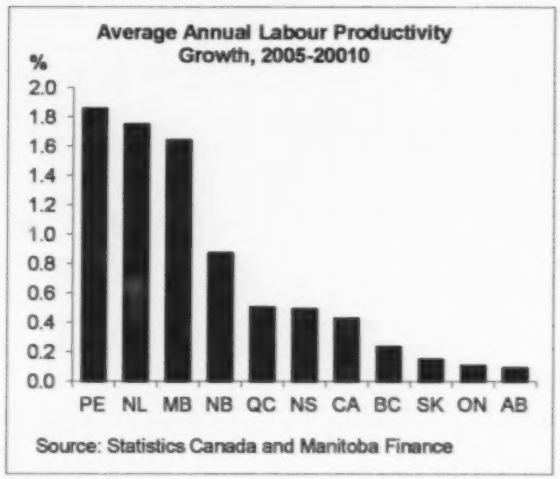
almost 9.0% from 2007 to 2010. However, offsetting this decline, exports to other provinces increased by 4.2% over the same period. As a result, total real exports are down by 2.6% from the pre-recession peak in 2007.



Manitoba is unique among provinces with a relatively diverse export market. Exports from Manitoba are almost evenly split between foreign markets and other Canadian provinces. Typically, Canadian provinces ship around 57% of their exports to other countries while Manitoba ships around 49%. In addition, about two-thirds of Manitoba's foreign exports are destined for the U.S. market compared to about three-quarters of exports nationally. As a result, Manitoba is less dependent on the U.S. market than Canada overall and Manitoba's economic growth is more aligned with the overall national growth.

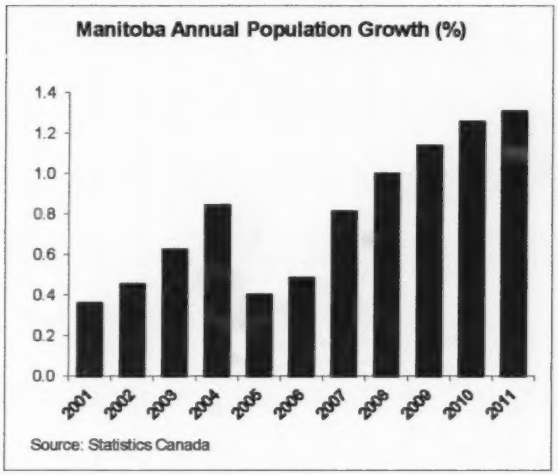
Manitoba's economy has benefitted from an increase in business capital spending on residential and non-residential projects. Over the last five years, Statistics Canada estimates that real business investment increased almost 30%, the second strongest increase in real investment among provinces and significantly above the 1% national increase over the same period.

The large increase in business investment has contributed to labour productivity gains in the province. Over the last five years, Manitoba's growth in labour productivity has been the third strongest among provinces and more than twice the national increase. This increase in productivity improves the competitiveness of Manitoba businesses and supports a healthy rebound in production.



Much of the relative strength of the provincial economy over the past several years is due to buoyant population growth. Population increased by 1.3% in 2010, the fourth highest rate of population growth among provinces. The increase of over 16,000 persons was the largest increase in almost 40 years.

Manitoba's population growth has benefitted from significant international immigration, with almost 16,000 immigrants arriving in the past year, the largest influx since 1946. Immigration to Manitoba is supported by the provincial nominee program. This program facilitates immigration applications by foreign workers with the skills, education and work experience needed to make an immediate economic contribution and to establish themselves successfully as permanent residents in Canada.



ECONOMIC OUTLOOK

Recent economic indicators show a slower than anticipated growth in global demand for goods and services. A lack of resolution on sovereign debt and budget balance concerns in Europe and U.S. adds to the uncertainty about the medium term economic growth. As a result, the BOC and the IMF have lowered the outlook for Canada and the global economy in general.

The survey of economic forecasters tracked by Manitoba Finance indicates 2.2% growth in 2011 and 2.4% growth in 2012. Earlier in the year, growth was projected at 2.7% for both years. Manitoba's growth is expected to remain relatively stable from the 2.2% growth estimated for 2010.

Nominal GDP is projected to increase by 5.5% in 2011 and by 4.3% next year, both above the national projected increase.

The private sector survey shows Canadian employment in 2011 will grow by 1.6% and by 1.3% in 2012. Manitoba's employment is forecast to increase by 0.9% in 2011 and 1.2% in 2012.

Moderate employment growth in 2011 and 2012 will result in stable but declining unemployment rates in Canadian provinces. Manitoba's unemployment rate is expected to decline to 5.1% by 2012 while the national unemployment rate decreases to 7.2%.

With continued weak overall demand conditions, Manitoba consumer price inflation is expected to average only 1.9% in 2012.

Manitoba Outlook at a Glance

(percent change unless noted)

	2009	2010	2011f	2012f
Gross Domestic Product				
Real	0.0	2.2	2.2	2.4
Nominal	-0.2	4.7	5.5	4.3
Employment	0.0	1.9	0.9	1.2
Unemployment Rate (%)	5.2	5.4	5.3	5.1
Consumer Price Index	0.6	0.8	2.8	1.9
Population	1.2	1.3	1.3	1.4

f = forecast

Sources: Manitoba Bureau of Statistics, Statistics Canada and Manitoba Finance Survey of Economic Forecasters (2011-2012)

Manitoba Economic Statistics

	2008	2009	2010	2011 (ytd)		Canada 2011 (ytd)	
			(% Change)				
Population							
July 1st estimates	1.0	1.1	1.3	1.3		1.0	(July)
Gross Domestic Product							
Real	2.0	0.0	2.2	2.2	f	2.2	(annual)
Nominal	4.4	(0.2)	4.7	5.5	f	5.4	(annual)
Sectors							
Farm Cash Receipts	10.7	0.4	0.1	1.3		10.9	(Sept)
Crops	25.7	1.5	(2.2)	(6.0)		15.0	(Sept)
Livestock	(2.1)	(3.5)	6.2	4.3		6.3	(Sept)
Manufacturing	1.2	(10.5)	(1.6)	7.2		7.4	(Sept)
Mineral Production	(17.9)	(21.7)	26.2	na		Na	
Value of Building Permits	10.6	(4.6)	12.6	4.0		(0.6)	(Oct)
Housing Starts All Areas	(3.5)	(24.6)	41.1	(5.1)		(0.8)	(Sept)
Retail Trade	6.9	(0.4)	5.6	4.2		3.5	(Sept)
New Car Sales	2.0	(8.4)	3.1	5.6		1.9	(Sept)
Foreign Merchandise Exports							
Total	6.4	(18.5)	(3.1)	27.3		12.1	(Oct)
USA	6.7	(19.8)	(8.3)	22.4		9.5	(Oct)
Labour Market							
Labour Force	1.5	1.1	2.0	0.7		1.0	(Nov)
Unemployment Rate (%)	4.2	5.2	5.4	5.4		7.5	(Nov)
Employment	1.7	0.0	1.9	0.7		1.6	(Nov)
Average Weekly Earnings	2.8	2.9	2.0	3.4		2.7	(Sept)
Consumer Price Index							
(2002=100)	2.3	0.6	0.8	3.0		3.0	(Oct)

(ytd) - year to date
(f) GDP data for 2008 to 2010 are from Manitoba Bureau of Statistics. Data for 2011 are based on the Survey of Economic Forecasters.